



Dear Provider

This letter outlines the outcome of the FY2017-18 pricing review and the decision to undertake an Independent Pricing Review.

Both initiatives are integral to the National Disability Insurance Agency's (NDIA's) commitment to grow the market for disability supports and services with a view to establishing a balance between demand and supply. This is critical not just to participants and providers, but also to the sustainability of the National Disability Insurance Scheme.

While price controls are currently in place during the rapid ramp-up of the National Disability Insurance Scheme, as the market matures in size, quality and innovation, it is envisaged that prices will be deregulated and determined by market forces.

Perspectives and data from the following sources were taken into account in making decisions on the immediate pricing outcomes and the Independent Pricing Review:

- Submissions from 82 providers;
- Submissions by providers and participants to the Productivity Commission;
- Provider and participant feedback as part of the NDIA's current review of how it interacts with participants and providers;
- Benchmark data from competing sectors, such as aged care and other statutory insurance schemes; and
- Economic data provided by the Scheme Actuary. More specifically,
 - Wage Price Index (WPI) movement of 1.9% for the 12 months to 31 March 2017;
 - Consumer Price Index (CPI) movement of 2.1% for the 12 months to 31 March 2017;
 - Fair Work Commission increase to minimum award wages of 3.3% (including all wages in the Social, Community, Home Care and Disability Services Industry Award 2010) (MWC) to apply from 1 July 2017;
 - Fair Work Commission's Equal Remuneration Order (ERO) increase in minimum wages in some disability roles by a further 1.7% which applied for the year ended 31 December 2016;
 - Recognition of the following differential impact of the movements outlined above and the associated assumptions:
 - MWC and ERO only apply to employees on minimum pay rates and to employees not covered by Enterprise Bargaining Agreements (EBA's), unless the legislated increase raises an employee's minimum pay rate above that specified in the EBA;
 - WPI movements are a reasonable indicator of wage movements for employees not covered by the minimum wage provisions; and
 - CPI is a reasonable indicator of movements in non-labour costs.
 - Recognition of the following cost allocation assumptions:
 - Support items include both labour and non-labour related components; and
 - The non-wage component (based on a Reasonable Cost Model) represents 20% of the cost of the support item.

More generally, divergent facts and views were presented. Some providers argued that existing prices do not allow adequate recovery of their costs, impeding their ability to make a

return and acting as a barrier to market growth. On the other hand, some participants argued that providers are overpricing supports in some categories. More detailed work is required to gain a deeper understanding of these divergent perspectives.

Other issues raised included, but were not limited to, the following:

- The appropriateness of regional versus single national pricing;
- The need for pricing to reflect greater complexity in the supports provided;
- The appropriateness of pricing of short stay support, and for emergency and crisis supports;
- The most appropriate approach to overhead allocation;
- Inherent cross-subsidisation in the move from block funding;
- The best approach to addressing thin markets, particularly in regional and remote communities; and,
- The appropriateness in all circumstances of hourly pricing.

This information and perspectives have informed the decisions outlined below.

1 FY2017-18 Price Review Outcomes

Given the information outlined above and the focus of this year's price review on personal care and community supports (attendant care), which represent around 76% of the NDIS's funded supports, changes have been approved in three key areas. They are as follows.

1.1 Changes to Maximum Prices for NDIS Supports and Services for FY2017-18

The following price changes have been approved.

Type of NDIS support and service	% increase	Comment
Daily activity and community participation	4.5	Full indexation for MWC and ERO (5.1%) for labour costs for 80% of support category. CPI (2.1%) for non-labour costs of 20% of support category.
Other supports including those related to Capacity Building	1.94	Other labour based support costs have had 1.9% applied to 80% and 2.1% CPI applied to 20%.
Capital related supports	2.1	CPI (2.1%) applied to all capital items.
Therapy Services	No change	Benchmark data from competing sectors indicated that no change was required for therapy services. However, a change to the cancellation policy will be effective from 1 July 2017 (see 1.3 below).

The NDIA is currently updating its systems and Price Guides to reflect these changes. Full details will be published online before 1 July 2017.

1.2 Loadings for Remote and Very Remote Areas

Price control loadings for Remote and Very Remote areas will be changed.

This decision is consistent with loading changes made by the Independent Hospital Pricing Authority.

The new loadings will be:

- Remote areas: 20%
- Very remote areas: 25%

1.3 Therapy services cancellation policies

The current policy in relation to Therapy cancellations will change.

Current NDIS price limits for attendant care allow up to 8 cancellations per year to be charged against a participant plan, but prohibit therapy cancellation charges.

To improve consistency across support types, from 1 July 2017, this policy will be amended.

Providers may charge for up to 2 participant cancellations for therapeutic supports per annum. Each cancellation charge must be for no more than 2 hours of support, and may only be applied where the participant has failed to give 24 hours' notice.

Further information will be included in updated NDIS Price Guides which will shortly be published on the NDIA website.

2. Independent Pricing Review

Given the wide range of other issues raised in the FY2017-18 Price Review; the Participant and Provider workshops; and the Productivity Commission submissions, the NDIA is immediately implementing an Independent Pricing Review which will be undertaken by McKinsey & Company.

Better understanding the wide range of issues that have been raised is critical to creating a strong, innovative and viable market, which will eventually lend itself to price deregulation. More specifically, it is integral to generating an improved outcomes focus for participants; allowing them to exercise greater choice and control; and attracting more providers to offer a broader array of quality, innovative services in local markets where demand exists. Moreover, getting this balance right is aligned with and essential to Scheme sustainability.

The Terms of Reference for the Independent Review are attached.

We urge you to participate in this Review, which will actively seek to engage with providers and participants to understand the facts in relation to the issues underpinning the Terms of Reference. Stakeholders will shortly be provided with information about how to engage with the Review.

I thank you for your engagement to date and hope for your ongoing support as we progress this nationally important initiative.

Yours sincerely



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Chief Executive Officer
National Disability Insurance Agency

12 June 2017

**NATIONAL DISABILITY INSURANCE SCHEME
INDEPENDENT PRICING REVIEW
TERMS OF REFERENCE**

Background to the Review

Growing the market for disability supports in a way that establishes a balance between demand and supply is critical not just for participants and providers in the National Disability Insurance Scheme (NDIS), but also for the Scheme's longer term financial sustainability. Price plays a key role in getting that balance right.

Longer term, it is envisaged that the price of supports will be determined by market forces. In other words price will be deregulated. In the near term, however, given the rapid ramp-up of the Scheme and, as the market matures to be of adequate size, quality and innovation, price controls have been established to give certainty to participants and providers alike.

Recent feedback during the National Disability Insurance Agency's (NDIA's) pricing review for FY2017-18 made it obvious that a deeper understanding is required of key dimensions of pricing, including the pathway to deregulation. This was reinforced by comments during the NDIA's Participant and Provider Review, as well as in submissions to the Productivity Commission.

To facilitate a better understanding, the NDIA's Board and Management have commissioned McKinsey & Company to undertake an Independent Pricing Review.

The Terms of Reference are outlined below.

Terms of Reference

1. Provide recommendations in relations to improved pricing effectiveness, including but not limited to:
 - a. National versus regional pricing;
 - b. Pricing of services with different levels of complexity;
 - c. Pricing of short stay support, and for emergency and crisis supports;
 - d. Thin and undersupplied markets, particularly in regional and remote areas;
 - e. Relative provider efficiencies (including overheads);
 - f. Adequacy of provider returns; and
 - g. Effectiveness of the Hourly Return approach used to set prices.
2. Provide recommendations in relation to the potential early de-regulation of price in more mature sub-markets and the glide path for the eventual de-regulation of price more generally.

Participants, providers and other stakeholders will be widely consulted.

The Review will commence immediately, and deliver its Final Report to the Board by the end of 2017.

Stakeholders will shortly be provided with information about how to engage with the Review.